

**Draft Request for Proposal**

**for**

**Independent Financial Audit of Verizon Massachusetts'**

**Residence Directory Assistance Revenues and**  
**Enhanced 911/Disability Access Costs**

**on behalf of**

**Massachusetts Department of Telecommunications and Energy**

**August 13, 2003**

## **1. Overview**

### **1.1 Verizon**

On June 16, 2000, in CC Docket No. 98-184 the Federal Communications Commission granted the applications for transfer of licenses and lines pursuant to the merger of GTE Corporation and Bell Atlantic Corporation. The merger closing date was June 30, 2000. The combined company, known as Verizon Communications, is one of the world's leading providers of communications services, and Verizon companies are the largest providers of wireline and wireless communications in the United States.

Verizon Massachusetts (“Verizon MA”) – formerly known as New England Telephone and Bell Atlantic-Massachusetts - is a principal provider of telecommunications services in Massachusetts. Verizon MA is subject to regulation by the Massachusetts Department of Telecommunications and Energy (“Department” or “DTE”) - formerly known as the Massachusetts Department of Public Utilities (“DPU”).

### **1.2 Purpose of Request for Proposal**

This Request for Proposal (RFP) is being issued in compliance with the Department’s July 14, 2003, Order in D.T.E. 03-63, Phase 1, requiring an independent audit of Verizon MA’s accounting plan for residential directory assistance (“DA”) revenues and the Enhanced 911 (“E911”) and Disability Access Service costs. See Attachment 1. That audit will be similar to the 1999 independent audit conducted pursuant to the Department’s Order in D.P.U. 91-68, issued July 12, 1991. See Attachment 2.

### **1.3 Background**

- a. On December 11, 1990, the Commonwealth of Massachusetts enacted legislation entitled “An Act Permitting A Charge For Directory, Assistance And Improving Telecommunications Within The Commonwealth” (Acts of 1990, Chapter 291). The Legislation provided for the establishment and maintenance of a statewide Enhanced 911 Service; for the establishment and maintenance of a dual party, TDD/TTY (Telecommunication Device for the Deaf) Telephone Message Relay Service Center to be located in the Commonwealth; for the establishment and maintenance of a TDD equipment distribution service and a SCPE (Specialized Customer Premises Equipment) distribution service; and, for the expanded amplification of incoming transmission for public and semi-public telephones (these services hereinafter are collectively referred to as “E911/Disability Access Services”). The Act permitted Verizon MA to charge for intrastate residence Directory Assistance (“DA”) and provided that the revenues from such charges would be used for the implementation of a statewide enhanced emergency 911 system and

the expansion of accessibility to the telecommunications network by persons with hearing, speech, vision or mobility impairments.

- b. Pursuant to D.P.U. Order 91-68 implementing the Legislation, Verizon MA was required, beginning in 1992, to establish a unique accounting process to ensure that revenues derived from Residential DA were matched against expenses and investments associated with providing E911/Disability Access Services and that any such revenues in excess of such expenses prudently incurred would be refunded to residential ratepayers in the form of a Variable Customer Dividend credited to residential customers monthly bills over a period of ten years. This is reflected in Verizon MA's Accounting Plan, filed in D.P.U. 91-68 and appended hereto as Attachment 3. Pursuant to D.P.U. Order 91-68, the vehicle for determining any change in the customer dividend was tracking reports filed with the Department on annual basis. Additionally, the Department recognized "because of the importance of the reconciliation process the Department (DPU) shall, during the ten-year reconciliation period, in its review of the Company's annual filings, direct one or more external audits of the DA accounting process."
- c. As required in D.P.U. 91-68, Verizon MA contracted for an external, independent audit of the DA accounting process. In 1999 the independent auditor found that Verizon MA's method of tracking directory assistance revenues and E911 expenses was fully compliant with the Department's requirements and that the amounts reported were fairly stated.
- d. On July 31, 2002, the Commonwealth of Massachusetts enacted legislation entitled "An Act Relative to Funding for Certain Telecommunications Programs within the Commonwealth" (Acts of 2002, Chapter 239). The Legislation provided for the establishment of a new funding mechanism for E911, relay services and the specialized equipment distribution program. That mechanism would implement a wireline surcharge on each voice grade residential and business line for the recovery of expenses that have been incurred, are being incurred, or will be incurred in providing E911/Disability Access Services beginning January 1, 2003 through December 31, 2007. The surcharge would also recover a portion of the pre-existing deficit that resulted from Verizon MA having incurred costs for the provision of these services that exceeded the revenues produced by intrastate residence DA.
- f. In D.T.E. Order 03-24, the Department promulgated regulations relating to the new surcharge, which replaces the prior funding mechanism based on Residential DA revenues. See Attachment 4. In D.T.E. Order 03-63, the Department approved Verizon MA's interim surcharge for recovery of ongoing E911/Disability Access Services costs, as well as a portion of the pre-existing deficit. In addition, the Department required Verizon MA to issue a Request for Proposals ("RFP") for an independent audit similar to the audit conducted pursuant to the Department's Order in D.P.U. 91-68.

## 2. Scope of Work

### 2.1 Specific Requirements

The Auditor will conduct an independent audit of Verizon MA's accounting for Residential DA revenues and for the costs of providing E911/Disability Access Services. Based on audit findings, the Auditor shall file an audit report stating whether Verizon MA's Accounting Practices for Residential DA revenues and costs associated with E911/Disability Access Services are in compliance with D.P.U. Order 91-68. The Auditor shall address the following issues in its **final** report: (1) whether the financial results and conclusions in Verizon MA's three most recent annual reports to the Department were fairly stated; and (2) whether Verizon MA fully complied with the reporting requirements listed on pages 17 and 18 of D.P.U. Order 91 68. A copy of Verizon MA's most recent tracking reports for the years 2000, 2001 and 2002 are appended as Attachment 5.

### 2.2 Deliverables

- a. Within ninety five (95) days after commencement of the audit, the Auditor shall complete and submit to the Department and to Verizon MA a final written report stating its expert opinion as Certified Public Accountants, as to:

Whether or not, Verizon MA's processes for accounting for Residential DA revenues and costs of E911/Disability Access Services are in accordance with the Accounting Plan in DPU Order 91-68;

Whether or not Verizon MA fully complied with the reporting requirements listed on pages 17 and 18 of DPU Order 91-68; *and*

- b. The *final* written report shall include:
  - 1. An executive overview of the audit and summary of the findings and conclusions;
  - 2. A detailed discussion of the techniques and approaches used, and findings and conclusions, including appropriate financial calculations, tables, charts and exhibits;
  - 3. All work papers prepared during the audit.
- c. Thirty (30) days prior to the date the final written report is due, the auditor simultaneously shall submit a draft report to both the Department and Verizon MA. The Department and Verizon MA shall have 15 days to review and submit any comments

they may have concerning the draft to the Auditor. The Auditor is required to provide 20 copies of the final report and cost of reproductions shall be included in the proposal.

d. Conduct of the audit:

To ensure an efficient audit procedure and avoid misunderstandings, Verizon MA will assign an audit manager to the project who will act as a liaison with the consultant, Verizon MA and the Department. All requests for data, records, documents and interviews must be presented to the audit manager. All such request should be documented in writing either when they are made or as soon as possible thereafter. Copies of such requests should be given to the Department at the same time they are given to Verizon MA or as soon as possible thereafter. The audit manager will then be responsible for responding to such requests in a prompt and responsive manner. Copies of any responses shall be provided to the Department upon request.

### **3. Proposal Process**

#### **3.1. Proposal Contents**

Verizon requests that bidders respond to the RFP in the exact manner the information is requested. However, this does not preclude the addition of clarifying comments, explanations, or remarks where deemed necessary by you. Any such additional comments, explanations, or remarks should be listed separately with cross-reference notes citing the applicable numbered section. Proposals shall contain the following minimum information for each of the Engagements (to the extent you have provided most of this information before you may resubmit relevant portions thereof, and you may incorporate duplicate information by reference):

- a. A general description of the audit firm, its qualifications as Certified Public Accountants in Massachusetts and the location of its offices in Massachusetts.
- b. A focused description of the firm's capabilities to conduct the type of audits required by the RFP, including any similar work done for telecommunication companies and the names of such companies. State whether or not in the last five years, the firm has conducted similar audits and produced similar reports that have been submitted to the Department or other state regulatory agencies in Massachusetts. State whether any such audits *or* reports have been accepted as adequate to meet the specific requirements for which they were conducted and submitted or whether any have been rejected as being inadequate, faulty or defective for acceptance *by such* agencies. Provide a general description of similar relevant audits conducted and reports produced for other similar companies or public agencies outside of Massachusetts and whether or not any of those audits or reports have been accepted or rejected by such agencies.

- c. List the names and positions of the proposed audit team and a description of their audit experience, professional qualifications and certifications.
- d. Describe how your firm will meet the specific requirements in the Scope of Work section, including a description of the following:
  - 1. The audit plan and approach;
  - 2. Types of financial records and data that would typically be requested for inspection;
  - 3. Method of data collection and inspection including any sampling methods and frequency anticipated to be used to conduct an adequate audit; and
  - 4. Required interviews.
- e. Describe whether the Auditor has any actual or would have any potential conflicts of interest arising from this engagement. If so, how would the Auditor propose to resolve such conflicts.
- f. Describe the amount and nature *of* professional liability, errors and omissions or other insurances relevant to work for which the firm is covered.
- g. Describe the manner in which the Auditor complies with Section 5 below concerning diversified suppliers and affirmative action.
- h. Provide the names of at least three major clients for whom the Auditor has done similar work and the name and telephone number of a contact person at each of such clients who may be called for references.

### **3.2. Pricing and Fees**

In a separate section of your proposal, please set forth the professional fees and hourly rates for the Audit and indicate your best estimate of what this Audit might cost. For example: Are you proposing a “Time & Material” or a “Fixed Fee” arrangement? What are your proposed hourly rates for professional fees? Are there any discounts available? Were any discounts reflected in the estimate provided?

Your proposal shall indicate the expiration date for pricing in any proposal submitted. Expiration date shall be at least **90** days after the due date of this RFP.

**Please also use the attached “Pricing Matrix,” appended hereto as Attachment 6, to set forth pricing, staffing resources, and travel and expenses for the services. Verizon’s**

**guidelines for reimbursement of travel and business expenses are appended as Attachment 7.**

### **3.3. Role of Verizon Corporate Sourcing**

In order to assure a competitive, objective and fair evaluation and selection process, the process for soliciting and evaluating proposals is being administered and managed by Verizon's Corporate Sourcing Department on behalf of Verizon and the designated Compliance Officer for Verizon. After receipt of this RFP, all requests for information, clarifications or discussions concerning this RFP, or for extensions of time to respond, should be directed as follows via e-mail:

**Primary contact will be:**

**Suzanne Del Giudice-Smith  
Senior Sourcing Process Leader  
Verizon Corporate Sourcing  
Rm. 14H01  
240 E. 38th Street  
New York, NY 10016  
Tel. No: 212 338-1086  
Fax. No: 212 476-5262**

**E-mail:**

***Suzanne.delgiudice-smith@verizon.com***

The foregoing person shall be responsible for obtaining and providing all substantive answers or clarifications to all responders on an equal basis, and shall be responsible for arranging any bidder's meetings or other discussions with Verizon personnel concerning this RFP. **Any requests for extensions of time to respond must be directed to the foregoing person in order to be considered.**

### **3.4. Evaluation and Selection Process**

After an evaluation of the initial proposals, Verizon will develop a "short list" of Auditors for further and more refined consideration, interviews and negotiations. During this evaluation process, Verizon reserves the right to request additional information, clarifications, and to permit corrections of errors or omissions by the firms on the "short list" without notice to the other firms that submitted proposals. In addition, Verizon may request revised proposals from some or all of the "short list" firms. From this evaluation process, Verizon will select at least two (2) "finalist" firms which Verizon will recommend to the Department for final selection. These selections will be based on Verizon's evaluation of which Audit firms and proposals represent the best overall balance of relevant experience, to total costs, quality and service to meet the requirements of the

Scope of Work. The final selection will be made by Department from all the firms that submitted proposals. The Department will select a winning bidder by balancing the factors of relevant experience, cost of the project, services to be provided, Verizon's recommendation, and other considerations that are deemed relevant.

The Department's selection of a winning bidder should not be considered a final Department decision, appealable pursuant to Massachusetts General Laws c. 25, sec. 5. Upon the selection of the Auditor, Verizon will then enter into an agreement with that Auditor.

During the RFP evaluation process, Verizon may provide an opportunity for each Supplier to present a high-level overview of its proposal to the Verizon evaluation team, or to provide answers to specific questions regarding various aspects of the proposal. Additional site visits and/or service demonstrations may be scheduled, as necessary, prior to completing a final evaluation. Suppliers may be contacted, as necessary, during the evaluation process to discuss various aspects of their proposals.

Each Supplier has an obligation to ask questions and/or clarify any issue which it does not fully understand or which may be interpreted in more than one way. Only written questions will be accepted. Questions asked by Suppliers during a Bidders Conference (if held) shall be reduced to writing by Suppliers and submitted to Verizon's point of contact, as listed in the RFP. Verizon will attempt to answer all questions from each Supplier; however, Verizon is not required to answer all questions. Such questions and responses may be made available to all Suppliers to this RFP to ensure consistent and equal interpretation of the RFP item(s). Questions may be delivered by e-mail to the Verizon contact listed above.

### **3.5. Anticipated Schedule**

Following is the anticipated schedule for completion of the selection process and audit project. This schedule is subject to change depending on circumstances.

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|---|--------|
| 1. RFP Issued to Bidder's List.   | Day 1  |
| 2. Bidders conference (if necessary, based on extent of questions)  | Day 15 |
| 3. Proposals due back   | Day 45 |
| 4. Initial evaluation completed, "short list" selected by Verizon; Verizon interviews, evaluates and negotiates <i>with</i> "short list", selects and recommends at least 2 "finalists" to the Department for selection. Copies of all proposals sent to the Department | Day 70 |
| 5. The Department selects the Auditor from all bidders.<br>Verizon and Auditor execute contract. Contract approved by   |        |



the Department. Field Audit begins.	Day 100
6. Field Audit completed.	Day 145
7. Draft Audit Report submitted to the Department and Verizon for comments.	Day 170
8. The Department and Verizon submit comments to Auditor.	Day 185
9. Final Report submitted to the Department.	Day 200

### **3.6. Response Date and Method of Response Submission**

- a. If it is to be considered, your response must reference the above stated RFP # XXXX. Your Proposal should be in MSOFFICE compatible format. Please avoid complex graphics and visuals, etc. **Failure to receive your RFP response on the due date will result in disqualification from consideration.**
- b. Do not send a copy of your RFP response to any other Verizon or Department employee.
- c. This RFP is not a purchase order and should not be considered as such. Any estimated amounts of services and requirements contained in this RFP reflect the best information available to Verizon at the time of RFP preparation and are estimates only and do not constitute commitments.
- d. The contents of submitted proposals in response to this request will be considered contractual obligations of the selected Supplier(s). All responses and related information submitted by you shall be deemed to be submitted to Verizon on a non-proprietary and non-confidential basis, any restrictive notices or legends to the contrary notwithstanding, and shall become the property of Verizon.
- e. Your response to this RFP must be complete and in writing, and must address all issues, items, and requirements in detail. Any exceptions, variations, deviations, or assumptions used in the development of the proposal must be explained in detail within the proposal.
- f. In no event shall Verizon be liable for any expenses incurred by the Supplier in preparing a response to this RFP. Verizon reserves the right to accept or reject any or all proposals in whole or in part without any explanation. Additionally, Verizon reserves the right, where applicable, to select portions of provider's proposals that best meet the requirements of this RFP. Verizon also reserves the right to select none, one, or multiple responses to this RFP. However, Verizon makes no commitment to purchase any product or service as a result of this RFP. All proposals submitted in response to this RFP become the property of Verizon and will not be returned.

- g. All unsuccessful Suppliers will be notified by e-mail or letter. Verizon has no obligation to detail to any Supplier the results of the RFP evaluation process or the reason(s) why a respondent was or was not successful.

#### **4. Terms and Conditions of Engagement**

Please indicate whether your firm already has a consulting agreement or other engagement contract in place with either Verizon that may be used to cover the engagement contemplated hereby. If your firm does not have such an agreement in place, as a condition of any award, Verizon and the selected provider shall enter into the engagement agreement which is appended hereto as Attachment 8. If you have an existing Agreement with Verizon, you should reference the Agreement where appropriate in the proposal. Selected Supplier(s) should recognize that the terms and conditions of an existing Agreement may apply or, as a result of the acceptance or negotiation of this RFP, may be amended or superseded, in writing, as determined by Verizon. To the extent that Verizon MA may disclose proprietary information to the Selected Supplier, a nondisclosure agreement will apply, as set forth in Attachment 9.

#### **5. Diversified Suppliers**

Verizon is committed to supplier diversity and believes in providing equal opportunity to diversified suppliers, otherwise known as minority and women-owned business enterprises, as well as those businesses owned by individuals who are disabled or Vietnam veterans (“MWDVBEs”). As such, Verizon makes every effort to utilize MWDVBE firms to the fullest extent possible.

As a potential supplier to Verizon, in any proposal submitted to Verizon, you must provide information that demonstrates your commitment to the inclusion and participation of diverse suppliers in support of Verizon’s requirements.

##### **5.1. MWDVBE Questionnaire Requirement**

As a part of your response to Verizon’s Request for Proposal, please provide the following:

- a. Indicate whether you are a diverse supplier (MWDVBE). If you are, attach a copy of your certification obtained from any federal, state or local agency, private corporation or advocacy organization that confirms MWDVBE qualifications. If you are a MWDVBE,

but have not been certified or are in the process of being certified, to which agency or advocacy group have you submitted your application?

- b. Provide the Scope of Work that you perceive would be attributable to your use of MWDVBEs. The business must be in direct relation to the contract.
  - 1. What are your projected MWDVBE purchases in direct support of this product or service line?
  - 2. Specify the product or service to be subcontracted to the MWDVBE.
  - 3. Specify the MWDVBE suppliers to be used for this subcontracting activity, include the following: Name, address, telephone number, contact person, and an e-mail address.
- c. Verizon has a corporate goal for MWDVBE inclusion in its procurement process of 16% in 2003, 17% in 2004 and 2005, and 18% in 2006 and thereafter. Verizon expects its suppliers to meet the same goal. Your percent commitment will be evaluated as part of the overall RFP. Participation will be measured based upon the amount of business where you utilize diverse suppliers. Specify the percentage of business you will subcontract to diverse supplier firms if you are awarded the business.
- d. If you are awarded the business, you must submit the Prime Supplier Quarterly Reports to Verizon via the website at [www.verizon.com/supplierdiversity](http://www.verizon.com/supplierdiversity) on a quarterly basis (30) thirty days following the end of the quarter.

**List of Attachments**

Attachment 1. D.T.E. Order 03-63 (Phase I), issued July 14, 2003

Attachment 2. D.P.U. Order 91-68, issued July 12, 1991

Attachment 3. Accounting Plan - D.P.U. Order 91-68

Attachment 4. D.T.E. Order 03-24, issued July 28, 2003

Attachment 5. Verizon MA's Tenth, Eleventh and Twelfth Annual Tracking Reports

Attachment 6. Verizon's Standard Pricing Matrix

Attachment 7 Verizon's Supplier Guidelines for Reimbursement of Travel/Business Expenses

Attachment 8. Verizon's Standard Form of Consulting Agreement

Attachment 9 Verizon's Standard Nondisclosure Agreement